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Auditor of State

From: Auditor of State's Center for Audit Excellence
To: All IPA Firms
Subject: Fiscal Year 2017 School FTE Adjustments
Date: October 11, 2017

The following items are addressed in the memo below with regards to Fiscal Year 2017 FTE Adjustments:

- Status of Fiscal Year FTE Adjustments
- Guidance on booking FTE Adjustments
- Community School overpayments to sponsors, management companies, vendors, etc.
- Updated sample footnote disclosure

Status of the Fiscal Year 2017 FTE Adjustments

- Traditional, ESC & CBDD –
 - Adjustment #1 was paid in August
 - Adjustment #2 was paid in September
 - Adjustment #3 is planned for December – planned to be the last one for fiscal year 17
- JVS –
 - Adjustment #1 was paid in September
 - Adjustment #2 is planned for December – planned to be the last one for fiscal year 17
- Community Schools –
 - Adjustment #1 was paid in September
 - Adjustment #2 is planned for December – planned to be the last one for Fiscal year 17
 - Listing available at <http://education.ohio.gov/Topics/Finance-and-Funding/School-Payment-Reports/State-Funding-For-Schools/Community-School-Funding>

Guidance on Booking FTE Adjustments

- Auditors should evaluate if the client's approach/determination of booking each FTE Adjustment was reasonable. **Each FTE Adjustment should be evaluated, rather than waiting until all FTE Adjustments have occurred for the fiscal year and just evaluating the net.**

- For example, if the Community School files their fiscal year 2017 GAAP financial statements in November 2017, they should have made a determination/assessment as to whether the FTE Adjustment #1 should be booked and if the School Foundation footnote should be included due to the final FTE Adjustment #2 not yet being made.
 - If the FTE Adjustment #1 was material, and the client did not book it (they only included the School Foundation footnote), inquire for their reasoning. Absent a well-reasoned assessment not to book it, the auditor should have an audit adjustment for such and consider if a significant deficiency/material weakness should be reported.
 - If the client booked the FTE Adjustment #1, and included the footnote disclosure; and the FTE Adjustment #2 was made by ODE before audit fieldwork was complete – if material, then the auditors should propose an audit adjustment for FTE Adjustment #2. An audit comment would not be reported, as that information was not available to the client at the time they were preparing their statements.

Community School Overpayments to Sponsors, Management Companies, Vendors, etc.

- As discussed in Auditor Yost’s letter to all community schools dated August 8, 2017, and his August 9, 2017 press release and press conference (<http://www.ohioauditor.gov/news/pressreleases/Details/3640>), Community Schools often have contracts that call for compensation to be based on a percentage of revenue received by the school. Factors often change community school foundation revenue after year end, and therefore a true-up is required. This true-up is not just referring to ‘claw backs’ – it is referring to any changes that affect funding or payments, and could apply to every community school (ie. ‘Final’ FTE Adjustments #1, #2, etc.). Failure to properly ‘true-up’ could result in findings for recovery.
- AOS held a webinar for community schools on 9/18/17 regarding potential overpayments to sponsors/management companies/vendors. A similar (more detailed) webinar will be held for AOS & IPA auditors soon (date not yet determined).
- If applicable, a footnote disclosure related to this situation may be required.

Updated Sample Footnote Disclosure

- The updated sample FTE footnote, including sample language related to the item above, will be provided when it is finalized.

Questions can be directed to Kelly Berger-Davis at KMBerger-Davis@ohioauditor.gov.